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FISCAL IMPACT STATEMENT

LS 6680
BILL NUMBER: SB 149

NOTE PREPARED: Mar 29, 2005
BILL AMENDED: Mar 28, 2005

SUBJECT: Trustees of Pension Funds.

FIRST AUTHOR: Sen. Lubbers
FIRST SPONSOR: Rep. Torr

BILL STATUS: As Passed House

FUNDS AFFECTED:
GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill: (1) adds the Director of the Budget Agency or the Director's designee to the boards of trustees of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). It sets limits of compensation for members of each board; (2) adds language concerning the qualifications for individuals appointed to the PERF Board; (3) provides that four trustees of the PERF Board constitute a quorum; and (4) authorizes the boards of TRF and PERF to establish by rule: (A) how administrative costs of alternative investment programs may be paid; (B) certain valuation dates; (C) investment allocation increments; (D) the contribution allocations date; and (E) the annuity savings account distribution date during a month; (5) increases from $25,000 to $35,000 the annual amount a retired member of PERF or TRF who has not attained the Social Security normal retirement age may earn in a covered position before the member's retirement benefit stops and the member must again make contributions to the member's retirement fund; and (6) provides that interest credited prior to July 1, 2005, in the PERF annuity savings account to suspended members participating in its guaranteed fund shall be treated as properly credited.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Part 1* The PERF Board and the TRF Board meet monthly, for the most part, although the PERF Board has not met during the month of August over the last few years. For the PERF Board, the new member and the existing five members will receive reimbursement for necessary expenses actually incurred through service on the Board. In addition, the bill removes the $450 quarterly payments to the five existing members of the PERF Board, thereby saving the PERF Board $9,000 per year in expenditures. New expenditures levels for the PERF Board will depend upon the expenses actually incurred by the PERF Board members. The fund affected is the nonbudget administrative fund.

Part 1 For the TRF Board, there could be a minimal increase in expenditures depending upon the actual expenses incurred by the Budget Director or his/her designee through service on the Board.

Part 2 and 3 will have no fiscal impact.

Part 4 - Teachers' Retirement Fund: The TRF Board of Trustees will determine how administrative fees will be charged. The Board of Trustees also will decide by rule: (1) when the valuation of a member's annuity savings account (ASA) will be completed; (2) the date when a member's selection or change to an existing selection is to be implemented; (3) the investment allocation increments; and (4) the allocation of member contributions. The proposal does not impose any additional requirements on the Board of Trustees. Any new expenditures will be dependent upon Board action.

Background Information: The following is provided to show *potential costs* if the Board were to decide to implement a strategy which included daily valuation, daily changes by phone and/or the web, and coordination with a daily pricing agent, Northern Trust. This proposal does not require the Board to incur any additional expenditures, and the following is provided for illustrative purposes only.

TRF has estimated the annual ongoing expenditures at $25 per participant, or approximately $3.6 M for about 144,000 members. This includes the start-up expenditures. The $25 annual fee per account estimate would cover daily accounting, making changes (by phone and/or the web), production of monthly statements, as well as set-up and coordination with TRF staff, daily pricing agent (Northern Trust), and internal technology platform.

Part 4 Public Employees' Retirement Fund: The PERF Board of Trustees will determine how administrative fees will be charged. The Board of Trustees also will decide by rule: (1) when the valuation of a member's ASA will be completed; (2) the date when a member's selection or change to an existing selection is to be implemented; (4) the investment allocation increments; (5) the allocation of member contributions. The proposal does not impose additional requirements on the Board of Trustees. Any new expenditures will be dependent upon Board action.

Background Information: The following is provided to show *potential costs* if the Board were to decide to implement a strategy which included daily valuation, daily changes by phone and/or the web. This proposal does not require the Board to incur any additional expenditures, and the following is provided for illustrative purposes only.

PERF cost estimates range between $24.50 and $29.10 per participant, or a total of approximately $5.8 M (236,500 x $24.50 per participant) to $6.9 M, (236,500 x $29.10 per participant).This assumes that members make their investment selections electronically via a web page in a similar method by which investment selections are made in the Legislators' Retirement System. The $24.50 estimate contemplates continuing the current process of the employers submitting PERF contributions on a quarterly basis. The $29.10 estimate is based on each employer submitting contributions immediately upon conclusion of each payroll period.

(Revised) *Part 5 Summary:* The specific fiscal impact will depend upon the number of TRF and PERF members affected by the newly proposed exempt amount. Based on the data and the assumptions below, the annual increase in expenditures for the TRF is estimated to range between $33,000 and $45,000 per year. The fund affected is the state General Fund. For PERF, based on current averages, very few would reach the newly established amount.

Background Information: For FY 2002, 13 TRF members had their benefits suspended because of the exempt amount provision as it currently exists. For FY 2003, the TRF had 8 members who had their benefits suspended because of the exempt amount provision. For FY 2004, the TRF had 11 members who had their benefits suspended. It is estimated that between 11 and 15 TRF members annually will have their benefits suspended. In addition, the TRF reports that there are usually a few members who must pay back benefits when it is discovered after the fact that they have exceeded the exempt amount. The temporary suspension of benefits is dependent upon reporting by local boards of education. The member's benefits are suspended once the TRF receives notification that the member has reached the exempt amount. At the beginning of the next fiscal year, the benefits are reinstated until the member again reaches the exempt amount.

The situation for PERF is similar. PERF estimates between 15 and 20 members each year have their benefits suspended.

The proposal means that more benefits will be paid out each year than at the current level. Specific data are not available on which to base an estimate. The following assumptions are used for illustrative purposes.

Teachers' Retirement Fund:

An average salary of $55,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $18,000 (the approximate average for retirements from 1999 to 2003). This would be paid in monthly installments of $1,500 beginning July 1.

The school year (and thus the payroll period) begins September 1, two months into the fiscal year.

Based on the above, the pay for such a member would reach the current law's "exempt amount of $25,000 toward the end of January. At that point, the member would have received seven months of benefit payments; and (assuming the member continues to teach) the remaining five months of payments would be suspended. At $18,000 per year, this would mean $7,500 of forgone benefit payments to the member.

Under the proposed change, the member's pay would reach the new "exempt amount of $35,000 in early March, possibly after the member had received the 7th monthly benefit payment. The member would be ineligible for the final three month's payment for that fiscal year. At $18,000 per year, this would mean $4,500 of forgone benefit payments to the member.

The difference of $3,000 of additional benefit payments is the increase in cost to the TRF, based on this example. The annual cost is estimated to range between $33,000 and $45,000, based on the data provided by the TRF. This represents less than 0.01% of the TRF active payroll.

Public Employees' Retirement Fund:

An average salary of $29,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $5,402 (the average for retirements from 2002 and 2003). This would be paid in monthly installments of $450 beginning July 1.

> Based on the above, the pay for such a member would reach the current law's "exempt amount of $25,000 toward the end of April, assuming a fiscal year payment. At that point, the member would have received ten months of benefit payments; and (assuming the member continues to be employed) the remaining two months of payments would be suspended. At $5,402 per year, or $450 per month, this would mean $900 of forgone benefit payments to the member.

Under the proposed change, the member's pay would never reach the new "exempt amount of $35,000.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Local units with members in PERF and local school corporations.

Information Sources: Robert Newland, Chief Investment Officer for TRF, 317-232-3868; William Christopher, Director of TRF, 317-232-3869; Bruce Kimery, Acting Executive Director, PERF, 317-233-4133.

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